

# REVISED NEWS RELEASE

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*For Immediate Release*

## **REVISED**

***JULY 1 , 2004***

Ronald J. Tenpas, United States Attorney for the Southern District of Illinois, announced today that **PHILLIP C. ZARLENGO**, age 56, who did business under the name “**STRATEGIC REIMBURSEMENT**” out of Denver Colorado, and who served as a Medicare reimbursement consultant to Augustine Medical, Inc., (AMI) a medical device manufacturer located in Eden Prairie, Minnesota pled guilty in the United States District Court, for the District of Minnesota, to the felony crime of healthcare fraud. The case was indicted in the Southern District of Illinois, but transferred to the District of Minnesota for trial.

Upon the Court’s acceptance of Defendant Zarlengo’s guilty plea, nearly eight weeks of jury trial in the District of Minnesota came to an end. Yesterday, four other defendants standing trial: **DR. SCOTT D. AUGUSTINE**, former CEO and Chairman of the Board for AMI; **JAMES RANDALL BENHAM**, former General Counsel for AMI; **PAUL S. JOHNSON**, former Director of Reimbursement for AMI; and **TIMOTHY W. HENSLEY**, former National Sales Manager for the Wound Care Division of AMI; each pled guilty to misdemeanor information which charged that defendants knowingly and wilfully withheld material facts for use in determining rights to benefits or payments under the Medicare program.

At the outset of the trial on May 10, 2004, defendant Augustine Medical, Inc. pled guilty to conspiracy to defraud the United States , as charged in Count 1 of the Superseding Indictment.

All sentencings will be held on September 8, 2004, in the District of Minnesota.

Pursuant to the plea agreements, Zarlengo faces 10 to 16 months’ imprisonment and will pay \$515,000.00 fine. Augustine, Benham, Johnson and Hensley face up to 6 months imprisonment. The Government will recommend 3 years’ probation. Augustine has agreed to pay a fine of \$2,000,000.00. Benham, Johnson and Hensley have each agreed pay a fine of \$100,000.00. Augustine Medical, Inc. will pay a criminal fine of \$5,200,000.00. Augustine Medical, Inc. also will pay a civil penalty in the amount of \$7,500,000.00.

Evidence for these prosecutions was gathered by agents of the Headwaters Task Force of the Federal Bureau of Investigation, the United States Postal Inspection Service, and the Office of the Inspector General of the Department of Health and Human Services. This task force had operated an undercover business front called Southern Medical Distributors in Swansea, Illinois.

The criminal case was prosecuted by Assistant United States Attorney Michael J. Quinley of the Southern District of Illinois, and Trial Attorney Rina C. Tucker of the United States Department of Justice, Criminal Division, Fraud Section. **The civil case was prosecuted by Gerald M. Burke.**